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Message Text

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55
ACTION EB-11

INFO OCT-01 NEA-10 ISO-00 AID-20 CIAE-00 COME-00 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SPC-03

CIEP-02 LAB-06 SIL-01 OMB-01 AGR-20 DRC-01 /108 W
---------- 042859
R 060908Z NOV 73
FM AMEMBASSY TEL AVIV
TO SECSTATE WASHDC 0415

UNCLAS TEL AVIV 8978

E. O. 11652: N/A
TAGS: EFIN, IS
SUBJECT: CERP/ERG: FINANCING THE WAR: NO. 3

REF: TEL AVIV A-123

1. GOVT HAS ANNOUNCED IMMEDIATE PRICE INCREASES ON LARGE NUMBER OF CONSUMER GOODS UNDER PRICE CONTROL. EXEMPTED ARE SUCH BASIS FOOD COMMODITIES AS MILK, EGGS, FLOUR, BREAD, COOKING OIL, MARGARINE, TEA, COFFEE, SUGAR, COCOA, CARP, AND FROZEN CHICKEN--ITEMS WHICH GOI HAS TRADITIONALLY SUBSIDIZED FOR ALL BUYERS BUT WITH AIM OF EASING BURDEN ON POOR PEOPLE (SEE REFAIR). PRICES OF FROZEN RED MEAT AND OF RICE WILL RISE ABOUT 50 PERCENT. IN ADDITION, 20 PERCENT IMPORT SURCHARGE WAS RAISED TO 25 PERCENT, MAKING EFFECTIVE EXCHANGE RATE FOR IMPORTS IL 5.25 PER DOLLAR. PURCHASE TAX WAS RAISED A FLAT 5 PERCENT ON ALL GOODS EXCEPT TELEVISION SETS AND WASHING MACHINES (10 PERCENT) AND IMPORTED PICKUP TRUCKS (FROM 5 TO 25 PERCENT). CUSTOMS DUTIES ON CERTAIN LUXURY ITEMS LIKE FURNITURE, SHOES, GLASSWARE, AND CIGARETTES WERE RAISED 20 PERCENT.

2. MINFINANCE SAPIR EXPLAINED CHANGES HAD TWO-FOLD PURPOSE: TO RAISE REVENUE FOR GOVT AND TO REDUCE CONSUMPTION OF IMPORTED GOODS WITH AN EYE TO SAVING FOREIGN EXCHANGE. GOI ESTIMATES NET INCREASE IN REVENUE AS IL 1,000 MILLION, COMPRISING GROSS INCREASE OF IL 1,400 MILLION, REDUCED BY INCREASED SUBSIDIES TO
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POOR PEOPLE OF IL 400 MILLION.

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3. COMMENT: GOI WAS UNDOUBTEDLY RELUCTANT TO TAKE ABOVE STEPS AT THIS TIME. THEY WILL HAVE SIGNIFICANT EFFECT IN BOOSTING INFLATION, WHICH DURING TWELVE MONTHS FROM SEPTEMBER 1972 TO SEPTEMBER 1973 HAS SEEN CONSUMER PRICE INDEX RISE 22.4 PERCENT. GOVT HAD HOPED TO AVOID PRICE INCREASES UNTIL AFTER ELECTION, BUT POSTPONEMENT OF ELECTION DATE, TOGETHER WITH URGENCY OF FINDING ADDITIONAL REVENUE NOW, APPARENTLY LEFT NO ALTERNATIVE. BURDEN OF SUBSIDIES AND WELFARE TRANSFERS ON GOI BUDGET IS VERY HEAVY. BEFORE WAR INTER-VENED TO UPSET ALL ECONOMIC CALCULATIONS FOR 1973, WELFARE TRANSFERS AND SUBSIDIES EXCEEDED 10 PERCENT OF CURRENT YEAR'S BUDGET (MVER IL 2,000 MILLION), OR ABOUT 5 PERCENT OF GROSS NATIONAL PRODUCT. GOI WILL BE UNDER HEAVY PRESSURE TO FIND WAYS TO REDUCE THIS BURDEN, BUT PROSPECTS ARE NOT BRIGHT.
KEATING

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